

# The Minimum Wage, the Earned Income Tax Credit, and Vermont's Livable Wage



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# Outline of Presentation



- **Part I**
  - ❖ Vermont's current minimum wage
  - ❖ Historical summary of Vermont's minimum wage
  - ❖ The minimum wage across the U.S.
  - ❖ States that have recently increased their minimum wage
  - ❖ Cities that have increased the local minimum wage
- **Part II**
  - ❖ The earned income tax credit (EITC)
  - ❖ Vermont's livable wage

# Part I: Vermont's Minimum Wage



- Currently \$10.00 per hour for most employees.
  - ❖ The minimum wage rate will increase to \$10.50 per hour on January 1, 2018.
- Service or tipped employees in the hotel, motel, tourist place, and restaurant industry must receive a basic wage equal to at least 1/2 the minimum wage before tips.
- A “service or tipped employee” is “an employee of a hotel, motel, tourist place, or restaurant who customarily and regularly receives more than \$120.00 per month in tips for direct and personal customer service.”

# Vermont's Minimum Wage Statute

## 21 V.S.A. § 384(a)



(a) An employer shall not employ any employee at a rate of less than \$9.15. Beginning on January 1, 2016, an employer shall not employ any employee at a rate of less than \$9.60. Beginning on January 1, 2017, an employer shall not employ any employee at a rate of less than \$10.00. Beginning on January 1, 2018, an employer shall not employ any employee at a rate of less than \$10.50, and beginning on January 1, 2019 and on each subsequent January 1, the minimum wage rate shall be increased by five percent or the percentage increase of the Consumer Price Index, CPI-U, U.S. city average, not seasonally adjusted, or successor index, as calculated by the U.S. Department of Labor or successor agency for the 12 months preceding the previous September 1, whichever is smaller, but in no event shall the minimum wage be decreased. The minimum wage shall be rounded off to the nearest \$0.01. An employer in the hotel, motel, tourist place, and restaurant industry shall not employ a service or tipped employee at a basic wage rate less than one-half the minimum wage. As used in this subsection, "a service or tipped employee" means an employee of a hotel, motel, tourist place, or restaurant who customarily and regularly receives more than \$120.00 per month in tips for direct and personal customer service. If the minimum wage rate established by the U.S. government is greater than the rate established for Vermont for any year, the minimum wage rate for that year shall be the rate established by the U.S. government.

# Historical Summary of Vermont's Minimum Wage 1938 to 1992



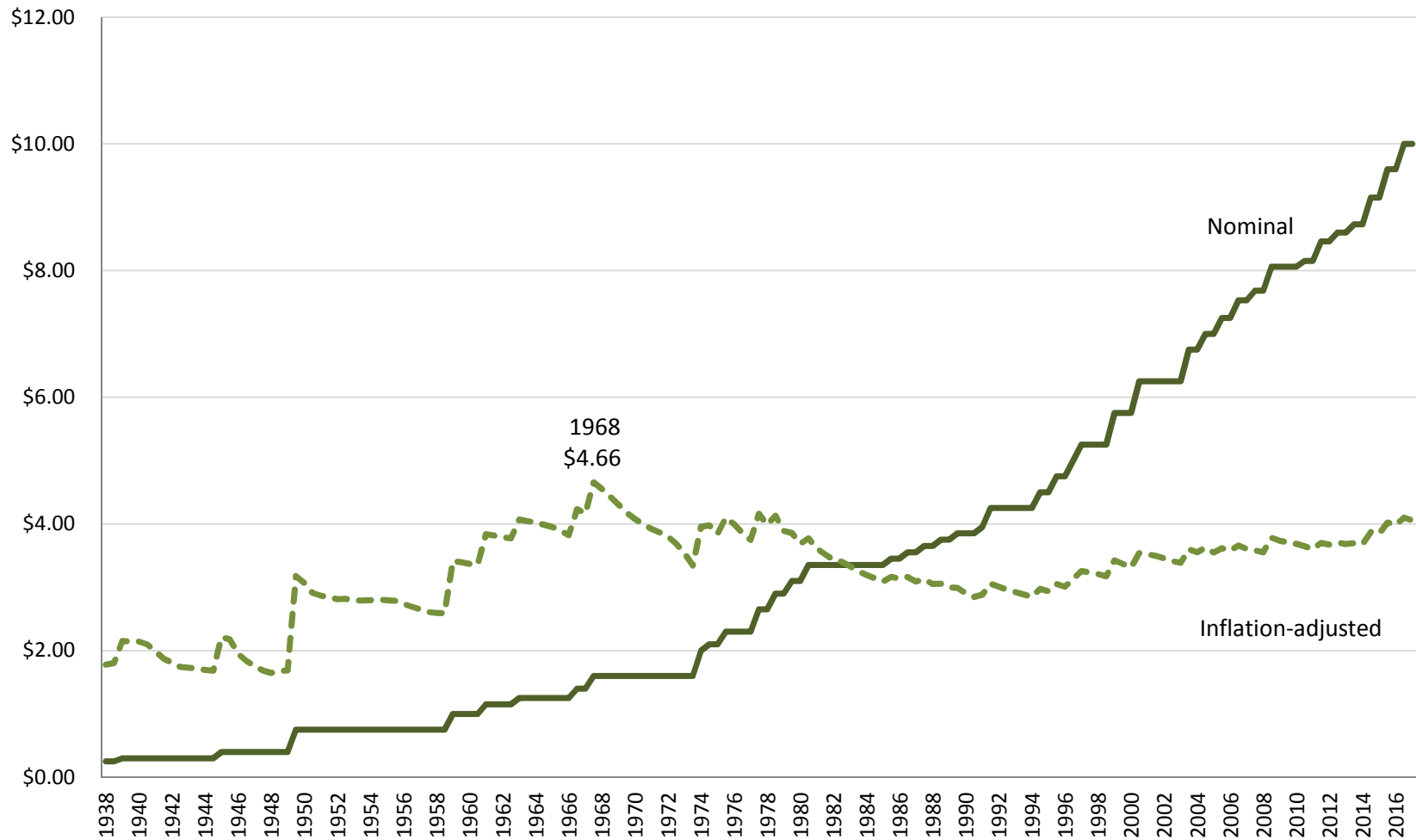
Year	Wage	Reason for Increase
October 24, 1938	\$0.25	Enactment of federal minimum wage.
October 24, 1939	\$0.30	Federal minimum wage increase.
October 24, 1945	\$0.40	Federal minimum wage increase.
January 25, 1950	\$0.75	Federal minimum wage increase.
September 1, 1959	\$1.00	Act 32 of 1959.
September 3, 1961	\$1.15	Federal minimum wage increase.
September 3, 1963	\$1.25	Federal minimum wage increase, followed by Act 35 of 1965.
April 17, 1967	\$1.40	Act 177 of 1967.
February 1, 1968	\$1.60	Federal minimum wage increase, followed by Act 67 of 1969.
July 1, 1974	\$2.00	Act 203 of 1972.
January 1, 1975	\$2.10	Act 265 of 1974.
January 1, 1976	\$2.30	Act 265 of 1974.
May 1, 1978	\$2.65	Act 244 of 1978.
January 1, 1979	\$2.90	Act 244 of 1978.
January 1, 1980	\$3.10	Act 244 of 1978.
January 1, 1981	\$3.35	Act 244 of 1978.
July 1, 1986	\$3.45	Act 80 of 1985.
July 1, 1987	\$3.55	Act 80 of 1985.
July 1, 1988	\$3.65	Act 80 of 1985.
July 1, 1989	\$3.75	Act 181 of 1988.
April 1, 1990	\$3.85	Act 181 of 1988 and Act 131 of 1990.
July 1, 1991	\$3.95	Act 181 of 1988.
January 1, 1992	\$4.25	Federal minimum wage increase.

# Historical Summary of Vermont's Minimum Wage 1995 to 2019



Year	Wage	Reason for Increase
January 1, 1995	\$4.50	Act 227 of 1994.
January 1, 1996	\$4.75	Act 227 of 1994.
January 1, 1997	\$5.00	Act 150 of 1996.
July 1, 1997	\$5.15	Act 4 of 1997.
October 1, 1997	\$5.25	Act 4 of 1997.
September 30, 1999	\$5.75	Act 21 of 1999.
January 1, 2001	\$6.25	Act 119 of 2000.
January 1, 2004	\$6.75	Act 67 of 2003.
July 1, 2005	\$7.00	Act 82 of 2005.
January 1, 2006	\$7.25	Act 82 of 2005.
January 1, 2007	\$7.53	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2008	\$7.68	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2009	\$8.06	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2010	\$8.06	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2011	\$8.15	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2012	\$8.46	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2013	\$8.60	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2014	\$8.73	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2015	\$9.15	Act 176 of 2014.
January 1, 2016	\$9.60	Act 176 of 2014.
January 1, 2017	\$10.00	Act 176 of 2014.
January 1, 2018	\$10.50	Act 176 of 2014.
January 1, 2019	\$10.50 + (5% or % increase in CPI-U, whichever is less)	Annual CPI increase pursuant to Act 176 of 2014.

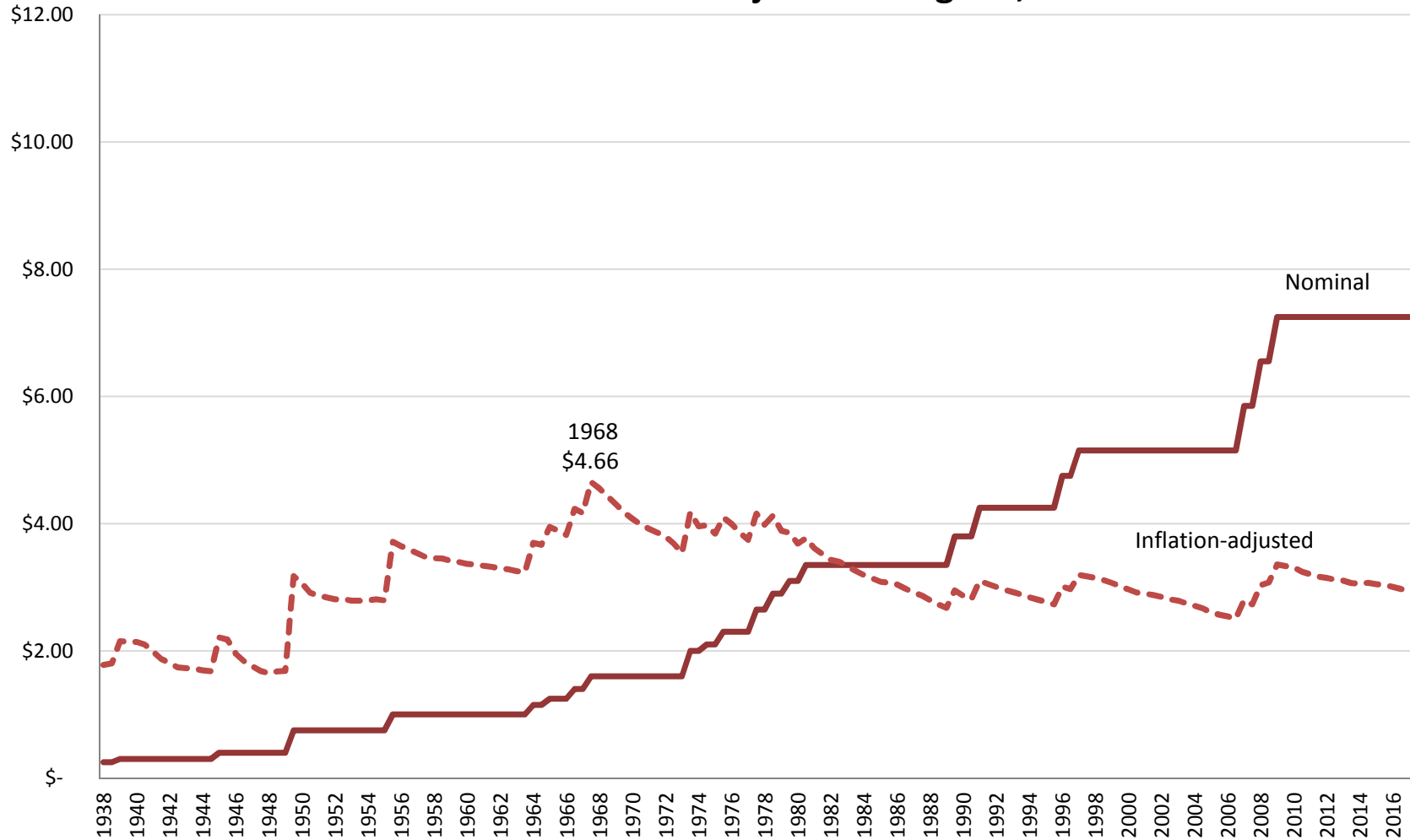
## Vermont's Minimum Wage, Nominal and Inflation-Adjusted using CPI, 1938-2017



Sources: Vermont legislative history; U.S. Bureau of Labor Statistics, Consumer Price Index (CPI) , All items in U.S. city average, all urban consumers, not seasonally adjusted; 1982-84 = 100.

Prepared by Joyce Manchester, Joint Fiscal Office

## U.S. Federal Minimum Wage, Large Employers; Nominal and Inflation-Adjusted using CPI, 1938-2017

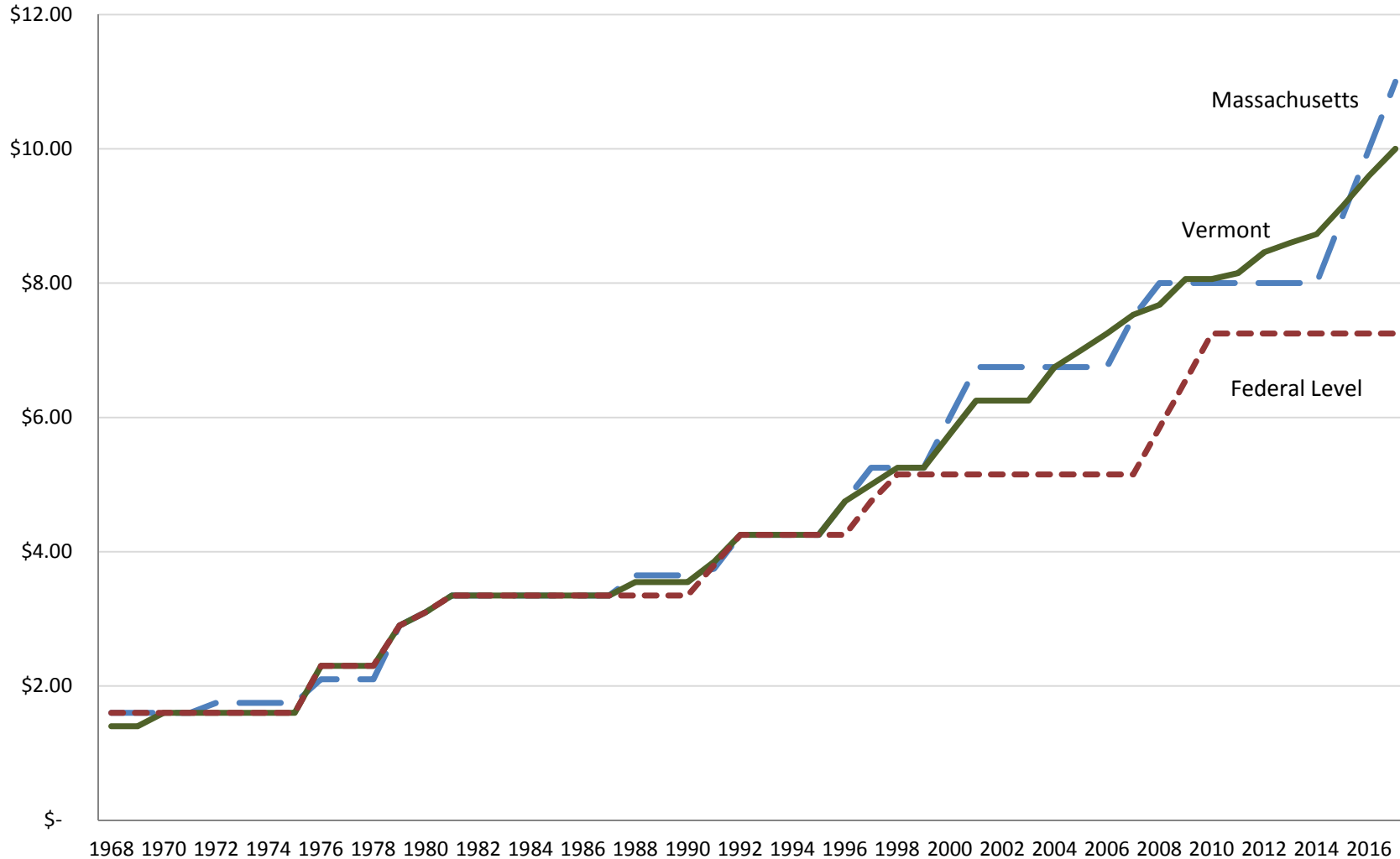


Sources: United States Department of Labor, "History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938-2009" available at <https://www.dol.gov/whd/minwage/chart.htm>; U.S. Bureau of Labor Statistics, Consumer Price Index (CPI), All items in U.S. city average, all urban consumers, not seasonally adjusted; 1982-84 = 100.

Prepared by Joyce Manchester, Joint Fiscal Office



## Nominal Minimum Wage at the Federal Level and in VT and MA, 1968 - 2017



Source: U.S. Department of Labor, Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2016; available at <https://www.dol.gov/whd/state/stateMinWageHis.ht>; Note that timing of minimum wage changes may not be exact.

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## Summary of State Minimum Wage Increases in 2017



- **According to NCSL:**
  - ❖ 19 states began 2017 with an increased minimum wage.
    - 7 states automatically increased the minimum wage based on changes in the cost of living.
    - 5 states increased the minimum wage pursuant to ballot initiatives that were previously approved by voters.
    - 7 states, including Vermont, increased the minimum wage pursuant to legislation passed in prior sessions.
  - ❖ 2 additional states and the District of Columbia raised the minimum wage on July 1 pursuant to legislation passed in prior sessions.

# Consolidated State Minimum Wage Update Table

Source: U.S. Department of Labor



Greater Than Federal Minimum Wage	Equals Federal Minimum Wage of \$7.25	Less Than Federal Minimum Wage	No Minimum Wage Required
AK - \$9.80	IA	GA - \$5.15	AL
AR - \$8.50	ID	WY - \$5.15	LA
AZ - \$10.00	IN		MS
CA - \$10.50	KS		SC
CO - \$9.30	KY		TN
CT - \$10.10	NC		
DC - \$12.50	ND		
DE - \$8.25	NH		
FL - \$8.10	OK		
HI - \$9.25	PA		
IL - \$8.25	TX		
MA - \$11.00	UT		
MD - \$9.25	VA		
ME - \$9.00 (effective 1/7/17)	WI		
MI - \$8.90			
MN - \$9.50			
MO - \$7.70			
MT - \$8.15			
NE - \$9.00			
NJ - \$8.44			
NM - \$7.50			
NY - \$9.70			
NV - \$8.25			
OH - \$8.15			
OR - \$10.25			
RI - \$9.60			
SD - \$8.65			
VT - \$10.00			
WA - \$11.00			
WV - \$8.75			

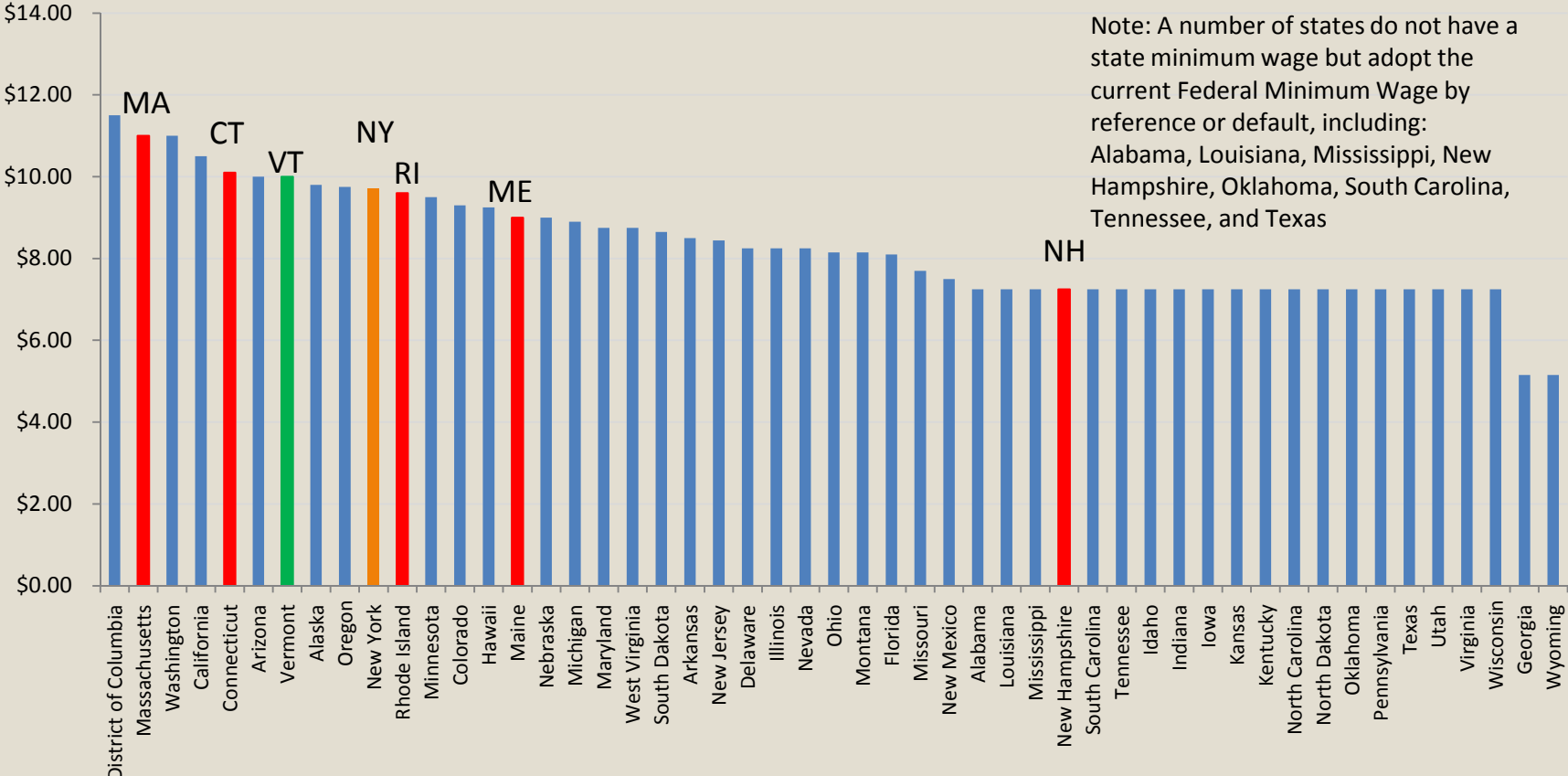
## Current State Minimum Wages Above \$9.00 per Hour

1. Washington, DC - \$12.50
2. Massachusetts and Washington - \$11.00
3. California - \$10.50
4. Oregon - \$10.25
5. Connecticut - \$10.10
6. Arizona and **Vermont** - \$10.00
7. Alaska - \$9.80
8. New York - \$9.70\*
9. Rhode Island - \$9.60
10. Minnesota - \$9.50
11. Colorado - \$9.30
12. Hawaii and Maryland - \$9.25
13. Maine and Nebraska - \$9.00

\*New York's minimum wage ranges from \$9.70-\$11.00 depending on the location and size of the employer.

# Minimum Wage by State

## with the New England States and New York Highlighted



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## States That are Increasing Their Minimum Wage to \$15.00 per Hour



- **California**

- ❖ Minimum wage for employers with 26 or more employees began increasing on January 1, 2017 and will reach \$15.00 per hour on January 1, 2022.
- ❖ Minimum wage for employers with 25 or fewer employees will begin increasing on January 1, 2018 and reach \$15.00 per hour on January 1, 2023.
- ❖ After 2023, the minimum wage will be adjusted annually for inflation.
- ❖ Tipped employees must be paid the full state minimum wage in addition to any tips or gratuities they receive.

## States That are Increasing Their Minimum Wage to \$15.00 per Hour



- **New York**

- ❖ Minimum wage began increasing on December 31, 2016.
- ❖ For employers of 11 or more employees in New York City, it will reach \$15.00 per hour on December 31, 2018.
- ❖ For employers of 10 or fewer employees in New York City, it will reach \$15.00 per hour on December 31, 2019.
- ❖ For employers in Nassau, Suffolk, and Westchester counties (the remainder of downstate New York), it will reach \$15.00 per hour on December 31, 2021.
- ❖ For employers in the remainder of the state, it will increase to \$12.50 by December 31, 2020 and then be annually adjusted for inflation until it reaches \$15.00 per hour.

## States That are Increasing Their Minimum Wage to \$15.00 per Hour



- **New York (continued)**
  - ❖ The tipped minimum wage is equal to  $\frac{2}{3}$  of the minimum wage rounded to the nearest five cents or \$7.50, whichever is higher.
  - ❖ For 2017, the tipped minimum wage is between \$1.60 and \$3.50 less than the minimum wage depending on the employer's size, industry, and location in the state.



## States That are Increasing Their Minimum Wage to \$15.00 per Hour



- **Washington, DC**
  - ❖ Minimum wage began increasing on July 1, 2014 and will reach \$15.00 per hour on July 1, 2020.
  - ❖ Beginning July 1, 2021, increases in the minimum wage will be based on the increase in the CPI.
  - ❖ Tipped minimum wage increased to \$3.33 per hour on July 1, 2017 and will reach \$5.00 per hour on July 1, 2020.
    - Beginning July 1, 2021, increases in the tipped minimum wage will be based on the increase in the CPI.

## States That are Increasing Their Minimum Wage to \$13.50 per Hour



- **Oregon**

- ❖ Minimum wage began increasing on July 1, 2016 and will reach \$13.50 per hour on July 1, 2022.
- ❖ Beginning on July 1, 2023, increases in the minimum wage will be based on increases in the CPI.
- ❖ Oregon's law also provides for a higher rate for employers located in the Portland metro area, and a lower rate for employers located in nonurban counties.
  - Beginning on July 1, 2017, the wage in the Portland metro area was increased to \$1.00 above the standard minimum wage and beginning on July 1, 2018, it will be \$1.25 above the standard minimum wage.
  - The wage in nonurban counties will increase more slowly than the standard minimum wage, and beginning July 1, 2022, it will be \$1.00 below the standard minimum wage.
- ❖ Tipped employees must be paid the full state minimum wage in addition to any tips or gratuities they receive.

## States That are Increasing Their Minimum Wage to \$13.50 per Hour



- **Washington**
  - ❖ Minimum wage began increasing on January 1, 2017 and will reach \$13.50 per hour on January 1, 2020.
  - ❖ Beginning on January 1, 2021, increases in the minimum wage will be based on increases in the CPI.
  - ❖ Tipped employees must be paid the full state minimum wage in addition to any tips or gratuities they receive.

## States That are Increasing Their Minimum Wage to \$12.00 per Hour



- **Arizona**
  - ❖ Minimum wage began increasing on January 1, 2017 and will reach \$12.00 per hour on January 1, 2020.
  - ❖ Beginning on January 1, 2021, increases in the minimum wage will be based on increases in the CPI.
  - ❖ The tipped minimum wage is equal to \$3.00 less than the minimum wage.

## States That are Increasing Their Minimum Wage to \$12.00 per Hour



- **Colorado**

- ❖ Minimum wage began increasing on January 1, 2017 and will reach \$12.00 per hour on January 1, 2020.
- ❖ Beginning on January 1, 2021, increases in the minimum wage will be based on increases in the CPI.
- ❖ The tipped minimum wage is equal to \$3.02 less than the minimum wage.

## States That are Increasing Their Minimum Wage to \$12.00 per Hour



- **Maine**

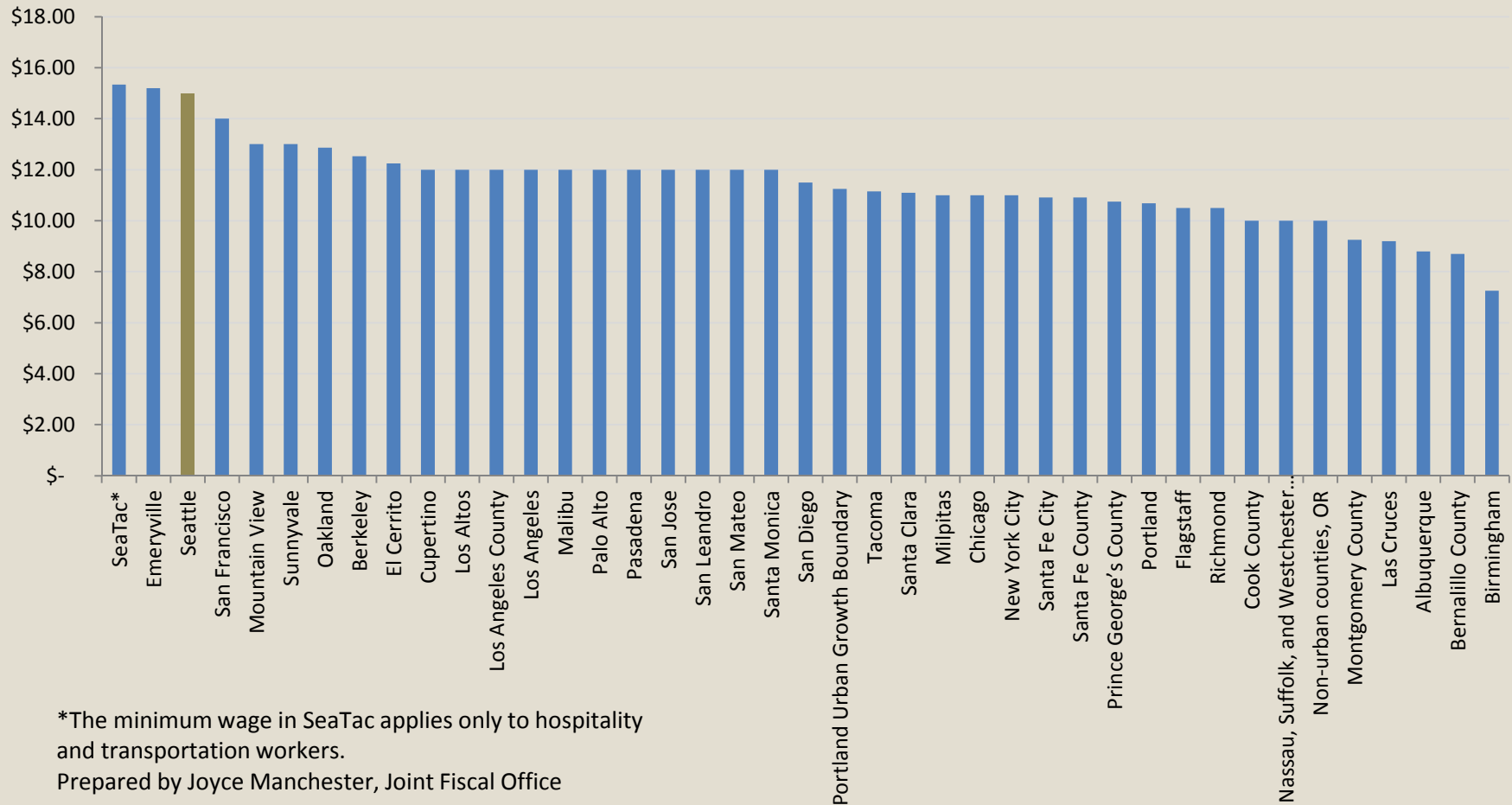
- ❖ Minimum wage began increasing on January 1, 2017 and will reach \$12.00 per hour on January 1, 2020.
- ❖ Beginning on January 1, 2021, increases in the minimum wage will be based on increases in the CPI.
- ❖ As of January 1, 2017, the tipped minimum wage is \$5.00 per hour, which is  $\frac{1}{2}$  the minimum wage.
  - The tipped minimum wage will increase by \$1.00 per year until it is equal to the minimum wage.

## Cities That are Increasing Their Minimum Wage to \$15.00 per Hour



- El Cerrito, CA (2019)
- Emeryville, CA (56+ employees-2015; fewer than 56 employees-2018)
- Flagstaff, AZ (2021)
- Los Angeles, CA (26+ employees-2020; fewer than 26 employees-2021)
- Minneapolis, MN (2022)
- Mountain View, CA (2018)
- San Francisco, CA (2018)
- Santa Monica, CA (2020)
- Seattle, WA (2017-2021, depending on employer size, medical benefits, and tips)
- Washington, DC (2020)

# Minimum Wage in Localities Where It Differs from the State Minimum Wage, as of July 10, 2017





# Limitations on the Ability of Local Governments to Raise the Minimum Wage



- **Preemption**

- ❖ 24 states have adopted laws that expressly preempt local governments from enacting a minimum wage that is higher than the state's minimum wage.
- ❖ In at least one other state, Kentucky, the state supreme court has ruled that the existence of a comprehensive state minimum wage law preempts local governments from enacting a higher minimum wage.

- **Dillon's Rule**

- ❖ In Dillon's Rule states, municipalities have only those powers that are delegated to them by the state legislature.
- ❖ Vermont is a Dillon's rule state, so any authority for a municipality to enact a minimum wage above the State minimum wage would have to be granted by the General Assembly.

# Sources, Part I



- State Minimum Wage Rates as of July 1, 2017:
  - ❖ <https://www.dol.gov/whd/minwage/america.htm>
- History of State Minimum Wage Rates 1968-2016:
  - ❖ <https://www.dol.gov/whd/state/stateMinWageHis.htm>
- History of Federal Minimum Wage Rates 1938-2009:
  - ❖ <https://www.dol.gov/whd/minwage/chart.htm>
- General Information on the Federal Minimum Wage:
  - ❖ <https://www.dol.gov/WHD/minimumwage.htm>
- Vermont Department of Labor Wage and Hour Program:
  - ❖ <http://labor.vermont.gov/unemployment-insurance/wage-hour/>
- NCSL State Minimum Wage Information:
  - ❖ <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>

## Part II: EITC and the Livable Wage



- The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people.
- It is available only to people who work and offsets federal payroll and income taxes.
  - ❖ When filing taxes for 2016 (due April 2017), working families with children that had annual incomes below about \$39,300 to \$53,500 (depending on marital status and the number of dependent children) could have been eligible for the federal EITC.
  - ❖ Working-poor people who had no children and had incomes below about \$14,900 (\$20,400 for a married couple) could have received a very small EITC.
  - ❖ Specific requirements are available at <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/do-i-qualify-for-earned-income-tax-credit-eitc>

## EITC Basics, continued



- During the 2015 tax year, the average annual EITC was \$3,186 for a family with children.
- For a family without children, the average annual EITC was \$293.
- Research indicates that, because it is received as a lump sum, families mostly use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power.

# What are the Mechanics of the EITC?



- The worker must file a tax return to receive the EITC.
  - ❖ The EITC reduces the amount of tax owed and may offer a tax refund, paid after Feb. 15<sup>th</sup> each year.
- The EITC remains available, but at gradually declining levels, to families as their income rises.
- The EITC covers some workers not covered by minimum wage laws, such as domestic workers and farm workers.

# Differences between the EITC and the Minimum Wage

## EITC

- Is more generous to working families with children
- Is paid once per year
- In most cases, has no effect on eligibility for social transfer programs
- The cost falls on government and taxpayers

## Minimum wage

- Helps low-wage workers regardless of age, presence of children, or total family income
- Affects each paycheck and eligibility for some social transfer programs
- The cost falls on private sector, especially employers and consumers

## 26 States and DC have State EITCs to supplement the federal EITC; Vermont is one of the 6 highest EITC states



	Share of Federal EITC	Minimum Wage	For comparison, Median HH Income 2015
Vermont	32%	\$10.00	\$56,990
Wisconsin	34%	\$7.25	\$55,638
Minnesota	34%	\$ 9.50 large business \$ 7.25 small business	\$63,488
New Jersey	35%	\$8.44	\$72,222
DC	40%	\$11.50	\$75,628
	100% if no children		
California	50% max	\$10.50	\$64,500

# How Does the Vermont Livable Wage Relate to the Minimum Wage?



- The Vermont Livable Wage is based on a Basic Needs Budget.
  - ❖ Defined in statute as the hourly wage required for a full-time worker to pay for 1/2 of the basic needs budget for a 2-person household with no children and employer-sponsored health insurance.
  - ❖ Reflects costs for essential items such as food, housing, transportation, child care, clothing and household expenses, telecommunications charges, health and dental care, renter's insurance, life insurance, and savings.
  - ❖ The JFO report looks at seven hypothetical family configurations; only two are shown here.
- The Basic Needs Budget reflects what it costs to live in Vermont without relying on support programs.



# The Vermont Livable Wage



2016 Vermont Basic Needs Budget	Wage per Hour	Urban Avg. Annual Income	Rural
<b>Two Adults (both wage earners), No Children</b>			
Average livable wage As defined in statute	\$13.03	\$56,318	\$52,057
If earn \$12/hour	\$12.00	\$49,920	
If earn VT Minimum Wage	\$10.00	\$41,600	
<b>Single Parent, Two Children</b>			
Hourly “livable” wage	\$35.34	\$65,461	\$58,053
If earn \$12/hour	\$12.00	\$24,960	
If earn VT Minimum Wage	\$10.00	\$20,800	

# Sources, Part II



- Center on Budget and Policy Priorities
  - ❖ “Policy Basics: The Earned Income Tax Credit”
  - ❖ <https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>
- Tax Policy Center
  - ❖ Briefing Book, 2017
  - ❖ <http://www.taxpolicycenter.org/briefing-book/how-does-eitc-affect-poor-families>
- U.S. Bureau of the Census
  - ❖ American Community Survey
  - ❖ 2015 median household income
- Vermont Joint Fiscal Office
  - ❖ Basic Needs Budgets and the Livable Wage, February 1, 2017
  - ❖ [http://www.leg.state.vt.us/jfo/reports/2017%20BNB%20Report%20Revision Feb 1.pdf](http://www.leg.state.vt.us/jfo/reports/2017%20BNB%20Report%20Revision%20Feb%201.pdf)



*Any Questions?*